



Public Employee Retirement System of Idaho

PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO  
607 North 8th Street  
BOISE, IDAHO 83702

MINUTES  
OF  
MEETING OF RETIREMENT BOARD

The Board of the Public Employee Retirement System of Idaho met at the PERSI Administration Building, 607 North Eighth Street in Boise, Idaho at 8:20 a.m., October 24, 2000. The following members were present:

Chairman Jody B. Olson  
J. Kirk Sullivan  
Dennis L. Johnson  
Susan K. Simmons  
Pamela I. Ahrens

Executive Director Alan H. Winkle, Deputy Attorney General Brad Goodsell, Chief Investment Officer Robert Maynard, Deputy Director Ted Aho, Medical Advisors John Mather and B. Strouth, and Management Assistant Joanne C. Ax were also in attendance. Other persons attending portions of the meeting were:

Doug Dorn  
Richelle Sugiyama  
Drew Black  
Brian McGrath  
Rod MacKinnon  
Charlie Brown  
Brent Nye  
James Coleman  
Robert Schmidt  
Karen Steffen  
Mark Bensen  
Tana Shillingstad  
Robin Nettinga  
Paul Saylor  
Marta Watson  
Becky Crowther  
Susan Shaw

Dorn, Helliesen & Cottle  
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D.B. Fitzpatrick & Co  
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Mountain Pacific Investment Advisors  
Retired Educators Assn. of Idaho  
Boise School District  
PERC – Retired Teachers  
Milliman & Robertson, Inc.  
Milliman & Robertson, Inc.  
Educational Technologies, Inc. (ETI)  
Governor's Office  
Idaho Education Association  
Chadwick, Saylor & Co., Inc.  
DFM  
PERSI  
PERSI

EXECUTIVE SESSION:

Chairman Olson noted for the record the necessity to hold an executive session to discuss matters exempt from disclosure as provided in Chapter 3, Title 9, Idaho Code and that Idaho Code §67-2345 (1)(d) authorizes the same. By motion duly made by Trustee Johnson, seconded by Trustee Simmons and unanimously approved, the Board went into executive session at 8:22 a.m.

After discussion of each disability application, the Board resumed the regular session at 8:32 a.m. By motion duly made by Trustee Johnson and seconded by Trustee Ahrens, the Board unanimously approved the disability applications of Linda B. Andrus, Eugene L. Campbell, Charles F. Padula, Diane I. Teel, Richard Watkins and Emil Wilkinson with no review.

OLD BUSINESS:

Approval of the Minutes: By motion duly made by Trustee Sullivan and seconded by Trustee Simmons, the Board unanimously approved the minutes of the September 26, 2000 regular meeting of the Retirement Board. The Chairman said the Request for Proposals for a Third Party Administrator for the Disability Program has closed and the contract has been awarded to VPA. Trustee Ahrens will review the process and there will be further discussion at the December meeting.

PORTFOLIO

Portfolio Report: Doug Dorn of Dorn, Hellieson and Cottle reviewed the investment performance and strategy report for the period ending September 30, 2000. The Total U.S. Equity portion returned 1.8% and the Total Global Equity portion returned 1.3% for the month of September, 2000. The Total fund returned 0.4% for the month. For the most recent data available, all of the managers are in compliance with the Investment Policy and they have either the expected portfolio characteristics or reasonable explanations for variance from expectations. There was some discussion of the risk control procedures at Tukman which have been corrected.

Mr. Dorn reviewed individual manager performance for the month, quarter and calendar year-to-date. Notable returns include Mountain Pacific with 11.4% for the calendar-year-to-date and MFS with 12.2%; the Mellon Capital Management's Russell 3000 Completer Index returned 13.9%. The report showed the Total Private Equity returns as reported by Russell/Mellon at 19.3% and Total Real Estate at 21.3% for the calendar year-to-date. DBF's Idaho Mortgage Program has returned 9.4% and the TIPS investment has returned 8.6% for the calendar year.

Hamilton Lane Advisors Private Equity Update: Because of airline flight difficulties, Mario Giannini was not able to attend the meeting. Paul Saylor reviewed the report that had previously been furnished to the Board. The Private Equity Portfolio highlights included mention that FCI Enclosures has continued to struggle and there is a high probability the company will have to file for bankruptcy. Galen Partners' investment in MEDIQ was written down due to issues brought to light resulting from the 1999 year-end audit. During the quarter, PERSI funded an initial capital call into Goense Bounds & Partners A, a fund which will make direct private equity investment in management buyouts, leveraged recapitalizations and industry consolidations. PERSI's commitment into that fund is \$10 million. Providence Equity partners III's IRR has increased significantly resulting from a successful IPO and successful buyouts.

As of June 30, 2000, the PERSI portfolio of private equity investments generated an overall pooled internal rate of return (IRR) of 18.92% since inception. The real estate portfolio as of the same date had a pooled IRR of 9.44% since inception.

Noting that PERSI has an allocation of just 2% to private equity and real estate, Chairman Olson asked if other funds invest more in these areas. Mr. Saylor said he knows of one that invests 20%; Utah, however, has cut back on their allocation in this area. PERSI is in no hurry to reach a particular allocation; Mr. Saylor continues to search for those that will meet the criteria PERSI has in place.

Monthly Portfolio Update: Mr. Maynard reviewed his Investment Report dated October 23, 2000, which showed a total fund return of negative 1.2% for the fiscal year to date.

Commenting on the report, the CIO said fear in the market that expected earnings growth won't happen is causing volatile movement. He pointed out that even though the markets have just gone sideways this calendar year, PERSI's manager returns are nearly all above their benchmarks. The managers have been cutting off the bottom part of the down market and over the five-year period have added value significantly more than their fees.

Mellon Trust is moving ahead with the unitizing project. They will guarantee the pricing on individual accounts on a daily basis. This is a tremendous risk control measure and beneficial as we move to a DC environment.

In response to a question from Trustee Ahrens, Mr. Maynard said no one is predicting a serious recession at this time, although there is still debate concerning whether the economic landing will be "hard" or "soft". The current market is going through a period of digesting recent economic and earnings reports, and attempting to come to a consensus about future direction. The rise in oil prices has dampened the market so the Federal Reserve Bank has not needed to raise interest rates. After Christmas, the market may start to catch up again.

Other Investment Business: The Chairman opened the floor to comments from managers who were attending the meeting. Rod MacKinnon said his company is fairly bullish on the average stock. Economist Brian McGrath discussed the country's economic shift from the industrial revolution into the technological one, and now finding technology continuing to evolve. Mr. MacKinnon added technical equipment is a critical spending item which is subject to economic growth.

## ACTUARY:

Preliminary Actuarial Report: Karen Steffen and Robert Schmidt of Milliman and Robertson, Inc. reviewed actuarial tables with the Board. M&R has advised the fund since the creation of the fund in 1965 – actually worked with staff beginning in 1962 as the legislation creating the fund was drafted.

Although the PERSI fund does not have an unfunded liability, there are important things to review. They congratulated the Board on addressing the issue of over funding through the Funding Policy before it actually occurred, and therefore having the comprehensive policy and guidelines in place.

The actuaries discussed the impact of actual vs. assumptions regarding salary increases, withdrawals of member contributions, and deaths on the Fund status. The actuaries concurred with the staff recommendation of declaring \$150 million as extraordinary gains to be shared. The recommendation was made taking into account future contingencies such as increased volatility

in the markets, future changes in actuarial assumptions and possible increased rate stabilization reserve requirements.

There was further discussion of the accuracy of data and how the target number of \$150 million was chosen as a recommended amount.

COLA Discussion and Adoption: By motion duly made by Trustee Johnson, seconded by Trustee Ahrens and unanimously approved, the Board adopted the recommended maximum retiree COLA of 3.4% and directed staff to send the recommendation to the Legislature for their consideration. If they take no action by the 45<sup>th</sup> day of the legislative session, the COLA approved by the Board will become effective March 1, 2001.

Gain Sharing Discussion and Decision: Throughout the meeting, the gain sharing issue had been discussed. By motion duly made by Trustee Johnson, seconded by Trustee Sullivan and unanimously approved, the Board declared an extraordinary gain of \$155,381,000 which provides a rate stabilization of 113% for the Fund. Mr. Johnson said he believed it is appropriate to use the rate stabilization target rather than to select a whole dollar number when declaring the gain. Trustee Ahrens noted that the contribution rate from employers and employees will provide slightly more than required for the normal cost, which will offset some market volatility. Gain sharing is a great tool for retention of employees.

#### FISCAL:

GFOA Award: Chairman Olson presented the an engraved plaque from the Government Financial Officers to Senior Accountant Rhonda Yadon recognizing her work toward receiving the award again this year. The Award of Excellence will be displayed in the fiscal department. The Award is presented to government units and public employee retirement systems whose comprehensive annual financial reports achieve the highest standards in government accounting and financial reporting. The annual report is compiled by the Communications, Fiscal and Portfolio departments each year.

Expense Reports: Financial Officer James Monroe reviewed Administrative, Portfolio, and Travel expense reports that had previously been furnished to the Board. The fieldwork for the FY 2000 audit is completed. A representative from Deloitte and Touche will attend the November meeting to present their audit report of the FY 2000 financial statements. The Preliminary performance report numbers that are provided to DFM and for the Legislative Budget Book were distributed.

Retiree Charlie Brown addressed the Board thanking them on behalf of retirees who will be receiving a 13<sup>th</sup> check because of the extraordinary gains declared by the Board. James Coleman who also represents retirees, joined Mr. Brown in thanking the Board.

#### COMMUNICATIONS:

Mark Benson of Educational Technology, Inc. (ETI), our education vendor, provided background on his company for the Board. The company has established their business on quality financial education with no hidden selling messages. The Chairman asked if a bundled approach would be better. Mr. Benson said when investment firms provide financial education, they provide biases, postured and selected information with focus on their own primary funds. ETI is distinct in that they talk about issues outside of the investments such as time value of money, helping investors understand the risk and the various sectors available for investment. the State of Washington also uses ETI in their educational program. Presenters will be hired on their ability to understand and to communicate. They will not take the place of a financial

planner, but will assist PERSI members in understanding the questions they need to ask in order to make an informed decision. The goal is to reach 100% of active PERSI members through distribution of a video, workbook, a checklist, web based information and face-to-face sessions. The materials will help the members establish a long-term financial objective – establishing a picture of what that member may need. They will then introduce the component parts that will help the member reach that goal. He expects the timeline/checklist to be available in October, with static web pages on line in November. In January, the toll-free numbers become operational and ETI will answer investment related questions. In February, the video book pack will be released. Workshops begin in April. Before July, modeling software should be ready for the web page.

In response to a question from Trustee Johnson, Mr. Bensen said ETI has 12 people dedicated to the development of the PERSI curriculum and graphical needs. Other staff at higher levels are coordinating with other teams. Six to eight contractors will be providing the face-to-face sessions along with PERSI. There are two scheduling liaisons. Technical staff who will track the data base, staff the call center are also involved. The interactive calculators for the modeling software will be outsourced to specialists. Communications Officer Becky Crowther said we are continuing our information to employees through our newsletters and we will let them know the timeline of the rollout. Board members noted that with the DC Gain Sharing plan, the responsibility shifts over to the employee who must take an aggressive role in providing for their own retirement.

Mr. Winkle said we are encouraging employers to allow release time for these educational meetings. We need the employers, the Governor, the school districts and subdivisions to support the employees in this new program.

## EXECUTIVE DIRECTOR

Appointment of Hearing Officer: Deputy Attorney General Brad Goodsell told the Board that it appears we will need a hearing officer in the appeal of a denial of disability retirement. Chairman Olson asked whether the FRF issue he had been involved in had been appealed. Mr. Goodsell said it has not and authority to appoint a hearing officer in that matter has already been granted by the Board. The Chairman told other Board members that at the request of an FRF members, he had met with three representatives, Mr. Winkle and Mr. Goodsell. The FRF COLA's are based on whatever the average firefighter salary increase was in the preceding year.

Chairman Olson wanted the Board to know that a lawsuit may be filed in that matter; Chairman Olson supports the staff position.

By motion duly made by Trustee Ahrens, seconded by Trustee Johnson and unanimously approved, the Board authorized the Executive Director to appoint a hearing officer to conduct a contested case hearing and to issue a recommended decision to the Board in the matter of the appeal of denial of disability retirement by Shirley J. Woodruff.

Adopt Pending Rule: By motion duly made by Trustee Ahrens, seconded by Trustee Simmons and unanimously approved, the Board adopted the temporary and proposed rules as pending rules, without revision. Contribution rules, docket no. 59-0103-0001, and retirement rules related to purchase of service and unused sick leave, docket no. 59-0106-0001 were included in the motion. The pending rules will become final after review by the 2001 legislature.

Status Update: The Board had previously received the monthly status memo which summarized the projects in which PERSI is involved. He told the Board that Trustees Johnson and Ahrens are working with the Retiree Medical Advisory Committee and that the report from M&R will be presented at the November meeting. Key PERSI employees are doing double and triple duty. Management is working to keep the stress level's down, but with vacancies, gain sharing, and Galena testing, staff stress levels are very high. Trustee Simmons asked about the annual statements. Field Services Manager Judy Aitken said we are printing them now. Each night a group is taken to a vendor for folding and stuffing. The schools will receive theirs first, then state employees and then subdivisions. Within two weeks she expects all of them to be printed and sent to employers. They will be in individual envelopes to provide confidentiality for our members.

Mr. Winkle invited Board members to attend the December 6 & 7 Investment Management Institute roundtable in San Francisco. The main topic is "Fiduciary Responsibility and How It Impacts Plan Design, Investment Structure, Education and Implementation." Mr. Winkle is a moderator at this roundtable. Chairman Olson encouraged fellow Board Members to attend at least one or two conferences of this type. He said \$7 billion is a lot of money and he would expect senior staff and trustees to attend educational workshops.

New Employers: By motion duly made by Trustee Johnson, seconded by Trustee Simmons and unanimously approved, the Board welcomed Northside Fire District of Ponderay, Idaho as a new employer effective October 1, 2000.

Adjournment: There being no further business to conduct, by motion duly made by Trustee Johnson, seconded by Trustee Sullivan and unanimously approved, the meeting was adjourned at 11:30 a.m.

#### FUTURE BOARD MEETINGS

Tuesday, November 28, 2000, 8:30 a.m., Boise – PERSI office

Tuesday December 19, 2000, 8:30 a.m., Boise – PERSI office

Jody B. Olson  
Chairman

Alan H. Winkle  
Executive Director